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** Comments are welcome **

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"The monetary construction of Europe resembles the myth of Sisyphus in its origins, but will finish, I hope, as well as the Aeneid."
- Valéry Giscard d'Estaing
January 25, 1974

This paper seeks to shed light on the factors driving European monetary integration by examining changes in France's diplomacy towards this issue since 1969. Because France has long been the principal advocate of European monetary integration (indeed, the Maastricht Treaty itself is the result of a French diplomatic initiative launched in January 1988), the French case is certainly significant. However, the French case also presents an interesting paradox: Why has the European country most notoriously jealous of its national sovereignty also been the leading proponent for European monetary integration?

Since 1969, there has been a definite movement in French monetary diplomacy away from national sovereignty and towards greater integration. While Charles de Gaulle saw no need for coordinated policies, new European institutions or compromising French national sovereignty in any way, his successor, Georges Pompidou, proposed closer European cooperation through a narrowing of intra-EC parity margins and the creation of a Community Reserve Fund. When Valéry Giscard d'Estaing took office in 1974 he proposed creating a common currency for the EC, which was later incarnated within the European Monetary System (EMS) as the European Currency Unit (ECU). Building on Giscard's ideas, Edouard Balladur proposed constructing a European central bank in January 1988. The French draft treaty on economic and monetary union, submitted by Pierre B,r,govoy in January 1991, went beyond Giscard and Balladur's ideas, suggesting that national central banks be required to implement the decisions of a politically independent European Central Bank and that the Ecu be transformed into a single currency that would replace all national currencies within the Community. In accepting the final version of the Maastricht Treaty, France went further still in its willingness to surrender sovereignty by agreeing that all national central banks should be made politically independent and by accepting strict convergence criteria for economic policy covering price stability, interest rates, deficits, debt and currency stability.

My research attempts to demonstrate that change in the structure of the international monetary system has been the driving force for these changes in France's European monetary diplomacy. Since 1969, France has tried to construct European monetary institutions that would protect its high growth economic policies from the ill effects of external monetary disruption. It has continually sought ways to achieve this objective at least cost to French national sovereignty. However, because France has often proved unwilling to compromise on the issue of sovereignty the resulting monetary institutions created by the EC were not strong enough to shield the franc from external turmoil. As a result of these failures, France gradually became more willing to trade sovereignty for influence -- to transfer more power to the European level in order to create truly effective European monetary institutions.

## Explaining European Monetary Integration

By signing and later ratifying the Maastricht Treaty, the states of the European Community (now European Union), committed themselves to creating a European central bank and a single European currency by 1999. By its very nature, monetary integration involves a partial form of political integration. Monetary integration requires collective action by governments on exchange rates and all those policy areas that affect them: interest rates, price levels, incomes, taxes, public spending and public borrowing -- virtually the whole gamut of economic policy. Since these are major bones of contention within any nation's domestic politics, the process of European monetary integration is inevitably a political process, as well. Furthermore, monetary integration itself also has unavoidable political consequences that will inevitably influence the shape of Europe's future. Because Europe has decided to move farthest in this area, monetary integration is likely to provide the cornerstone for the Continent's future political architecture.[1]

Putting aside for the moment the difficult question of whether or not the Maastricht treaty can be implemented, why was it signed and ratified in the first place? Despite the importance of the issue, European monetary integration presents a theoretical puzzle for economists and political scientists alike. Explanations for European monetary integration put forward in recent years include:

1. 1992 spill-over. The integration of European financial markets called for in the 1992 single market project made economic and monetary union (EMU inevitable.
2. EMS politics. EMU is a move by some states to reduce the German Bundesbank's dominance in European monetary affairs.
3. German unification. EMU reflects a desire to bind a reunified Germany more closely to Western Europe during a period of - geo-political uncertainty.
4. credibility. EMU is a move to increase the credibility of anti-inflationary policy commitments made by member states.
5. scapegoating. EMU provides an international commitment that political leaders can blame for making unpopular domestic economic reforms.
6. domestic politics. Domestic interest groups favoring exchange rate stability prevail on their governments to pursue EMU.
7. linkage politics. EMU is part of a larger network of inter-state bargains among members of the European Community.
8. institutions. The direction of monetary integration is determined by institutional constraints at both the European and national levels.
9. regime norms. Over time states have internalized the norms of cooperation embodied in Europe's monetary regime.
10. global economy.Pressures generated from the international economy provide the impetus for European monetary integration.[2]

The theoretical confusion over the causes of European monetary integration is apparent from the list above. One recent influential article on the subject suggests that there is "little prospect of a neat, unitary theory of national preferences" to explain European monetary integration.[3] Another recent theoretical study co-authored by two prominent scholars of European monetary integration (one an economist, the other a political scientist) concludes "that (European monetary unification) is driven mainly by political rather than economic factors, although our understanding of even these political forces remains incomplete."[4] Complicating these theoretical problems is the fact that there is a relative scarcity of empirical work on the political motivations for European monetary integration.[5]

This paper attempts to help fill that gap by examining changes in France's diplomacy towards European monetary integration since 1965. Rather than attempt to provide a complete explanation for French policy preferences, this paper focuses on how and why these preferences changed over time, in an attempt to discover clues as to their underlying causes. A firmer understanding of how state preferences change is significant not only for its own sake, but for the sake of building a predictive theory of integration.

## The Context for French Monetary Diplomacy

This paper argues that change in the structure of the international monetary system has been the driving force for change in France's European monetary diplomacy. The floating exchange rates, huge international financial markets and high mobility of capital which characterize the contemporary international financial system have progressively stripped from European states the ability to pursue independent national monetary policies.[6] States find themselves in a global competition for capital that reduces their ability to set monetary policy according to domestic policy goals.[7] The breakdown of the Bretton Woods system of fixed exchange rates in 1973 fed a process of geometric expansion in international financial markets, facilitated by advances in information and telecommunications technology. Global turnover on foreign exchange markets was estimated at $1 trillion a day in 1992, a 300% increase from just 1986. The New York market alone went from a daily turnover of $10 billion in 1977 to $192 billion in 1992. As a result, central bank reserves have declined as a percentage of the global daily turnover on foreign exchange markets, reducing their ability to stabilize exchange rates through market intervention. A recent IMF report suggests that this expansion of global financial integration is still in its "adolescence".[8]

The abandonment of the Bretton Woods system of fixed exchange rates presented a particularly inhospitable environment for French economic policy. Since 1945, French leaders have been committed to a strategy of high economic growth, explicitly designed to advance French power internationally and bolster political stability at home.[9] Monetary laxity was the means for implementing this policy, funding rapid growth through "the generous allocation of credit under state tutelage and guarantee."[10] Demand for credit was matched by supply, at first directly from the state and later through the banking system which itself was highly regulated by the French Treasury and dependent on central bank financing.' Although this strategy was highly inflationary, the Bretton Woods system insulated the franc's exchange rate from speculative pressures for long periods of time. When these pressures could no longer be resisted, the Bretton Woods system allowed the French to devalue their currency. The new exchange rate would be insulated against external disruption in the same way as the old, allowing the French cycle of inflationary high growth policies to resume once again.

The collapse of Bretton Woods knocked this external prop out from under the franc. As foreign exchange markets expanded in response to the uncertainty of floating exchange rates, France found itself forced to rely more heavily on domestic mechanisms to stabilize the franc. However, France's policy of expansion based on easy credit had created an "overdraft economy" that was so dependent on guaranteed credit that it could not be stabilized using internal adjustment mechanisms without risking brutal deflation.[11] Compounding this vulnerability was the fact that under floating exchange rates, the international monetary system tended to revolve around a dollar-deutschemark axis. During periods of dollar weakness, funds tend to go out of dollars and into deutschemarks.[12] This puts upward pressure on the mark in relation to other European currencies, especially the franc, regardless of whether domestic economic policies within the EC are divergent or not. As a result, floating exchange rates confronted France with a vicious cycle of currency depreciation and price inflation that progressively retarded its ability to pursue economic growth.[13]

## The Gaullist Legacy

In examining the evolution of France's European monetary diplomacy it is first necessary to review the legacy of President Charles de Gaulle. In February 1965, de Gaulle proposed replacing the dollar-based Bretton Woods system with a strict gold standard. De Gaulle made clear at the time the extent to which France's monetary diplomacy was a response to the adverse effects of the dollar-based Bretton Woods system.

....the fact that many countries accept dollars on the same basis as gold to eliminate deficits, which appear as credits in the American balance of payments, gives the Americans the possibility to contract interest-free debts abroad, for what they owe they pay -- at least in part -- with dollars which they can create at will and not with gold, which has real value, whose possession one has to work for, and which cannot be transferred to others without risk or sacrifice. But this one-sided opportunity which America has also contributes to undermining the idea that the dollar is all impartial and international means of payment, though it is actually merely a means of credit of one state.[14]

De Gaulle believed that a strict gold standard would strip the US of its ability to escape balance of payments constraints, resulting in a more stable international environment for French economic policies.[15] Although his rhetoric may have been sharp, in practice de Gaulle's challenge to the Bretton Woods system was rather mild. France sought to reform the existing fixed exchange rate system, not destroy it. Although after 1965 France regularly exchanged its dollar holdings for gold, it did not exploit or encourage speculation against the dollar.[16] In the French view, the dollar-based system was crumbling under its own weight. Total collapse of the system would destroy fixed exchange rates - a situation the French did not favor. Instead, they favored an orderly transition by international agreement to a new system of symmetrical obligations based on gold. As De Gaulle told his cabinet during the dollar crisis of March 1968:

Now the crisis of the dollar that is currently developing illustrates that the present system, based on privileged reserve currencies, is not only inequitable but from now on inapplicable. To seek to impose it any longer would be to condemn the world to serious economic and social trials.
A monetary system based on gold which alone is immutable, impartial and universal must therefore be implemented. This reform would naturally include an organization of international credit consistent with the far-reaching, mobile and rapid nature of trade in our times.[17]

Ultimately, de Gaulle's challenge to the Bretton Woods system was based on a fundamental miscalculation. Assuming that continuing weakness of the dollar could only lead to the end of its dominance over the international monetary system, he had seen a strict gold standard as the only logical alternative. However the expected abandonment of the dollar for gold never took place. De Gaulle's unwillingness to sacrifice French national sovereignty, meant that Europe could not collectively mount a challenge to American leadership over the international monetary system. Although de Gaulle sought diplomatic support from his European partners, he made no effort to increase the Community's role in international monetary affairs. Such an approach would require narrower cooperation and more constraints on French autonomy than de Gaulle was willing to contemplate. De Gaulle favored a strong role for Europe in world affairs, but he envisioned a confederal Europe, a Europe des parries, under French tutelage. De Gaulle saw no need for coordinated European policies, new European institutions or compromising French sovereignty in economic affairs in any way. Not surprisingly, therefore, when push came to shove, France's European partners, especially West Germany, were unwilling to risk the adverse consequences of challenging the dollar's hegemony.[18]

The failure of de Gaulle's diplomacy left the franc horribly exposed during the events of May 1968. Student and workers' riots starting that month brought the economy to a standstill and nearly toppled the entire political structure. In less than two months, 750 million working hours were lost due to strikes and lockouts. The resulting losses in productivity, totaling some 3% of GDP, led to enormous reserve losses, while economic and political turbulence triggered speculation against the franc and massive capital flight. Pressure against the franc did not subside until de Gaulle's successor, Georges Pompidou ordered an 11.1% devaluation on August 8, 1969.[19]

## Pompidou and the Werner Plan

The failure of De Gaulle's policy, convinced Georges Pompidou that France would have to cooperate more closely with its EC partners. Shortly after coming to power, he called for a summit meeting of EC leaders to launch a new initiative in monetary affairs. This summit meeting, which took place in the Hague in December 1969, called for the creation of an economic and monetary union (EMU) within the Community by 1980. In March 1970, a special commission known as the Werner Group was appointed to study EMU proposals.

The French proposals submitted to the Werner Group were designed to shield the franc by reducing the EC's exchange rate dependence on the dollar and by fostering a coordinated European monetary response to US actions in the international monetary system. They emphasized two elements: a narrowing of intra-EC parity margins and the creation of a Community Reserve Fund.[20] The French plan suggested an immediate reduction of the parity margins between EC national currencies from 1.5% to 1.0% as a first step towards irrevocably fixing EC exchange rates. By narrowing intraEC exchange margins, France sought to encourage greater use of Community currencies in intra-European payments in order to reduce the threat dollar instability posed to Europe.[21] The proposed Reserve Fund would manage a portion of the member states' reserves and the community's allotment of SDRs. Organized along strictly confederal lines, its main functions would be to administer short- term monetary credits, facilitate the narrowing of EC exchange rate margins, increase the international use of Community currencies and eventually intervene directly in the market for dollars. Through the narrowing of exchange margins and the reserve fund, France hoped eventually to dislodge the dollar from its central role in intra-European payments, thus reducing European (and hence, French) vulnerability to the vicissitudes of dollar instability.

French proposals were external in orientation, focusing on the problems of the weak dollar, irresponsible American monetary policies and the threat posed by international speculators. Pompidou did not seek a war on the dollar, but rather saw cooperation as a way of reducing Europe's dependence on the dollar and of pressuring the US to take measures to correct its deficits. Pompidou made this connection quite clear:

> What is necessary ... is that the European nations, beginning with France, try together to create, not a single currency -- we are far from that -- but an ensemble mon,taire, a certain monetary union which would, by its economic weight, permit the European countries to balance the dollar in some fashion.[22]
>
> Europe can help find a solution (to international monetary turmoil if it creates itself a monetary entity, which would permit it to establish a pole of equilibrium with respect to the dollar, that is, to make European currencies not purely and simply dependencies of the dollar.[23]

Despite Pompidou's desire to create a European monetary pole to balance the United States, he set firm limits to the' amount of national sovereignty that would be sacrificed to achieve it. France resisted West German proposals for rigid policy coordination before the introduction of fixed exchange rates and the creation of supranational monetary institutions.[24]

As a result, the final version of the Werner Plan, approved in March 1971, reflected a rather watered-down compromise. Margins of fluctuation between EC currencies would be reduced, but further progress on fixing exchange rates would be linked to progress in tile area of policy coordination, a formula known as "parallelism". Plans to create supranational institutions were dropped, while creation of a reserve fund would depend on the successful functioning of the exchange rate mechanism.[25]

The international monetary turmoil in the wake of the Nixon Administration's decision to suspend the dollar's convertibility into gold in August 1971 made it impossible to implement the Werner Plan's narrowing of EC exchange rates until March 1972.[26] Since the EC bands of fluctuation moved within the dollar bands, this arrangement was dubbed "the snake in the tunnel." In April 1973, the reserve fund the French had sought was created, labeled the European Monetary and Cooperation Fund, or FECOM according to its French acronym. However, because the French had been unwilling to make FECOM into a supranational institution, the Germans stubbornly rejected French backed proposals to pool 20% of the member states' reserves under FECOM's control.[27]

FECOM and the Snake were too weak to protect the franc from international monetary turmoil. They could not prevent the complete disintegration of the Bretton Woods system in March 1973, which utterly changed the costs and benefits of French participation in the Snake. As originally conceived, the Snake was supposed to operate within the confines of the Tunnel, i.e. fixed exchange rates at the international level. This implied a German obligation to maintain the deutschemark's parity against the dollar. Without the constraint of the Tunnel, the snake imposed an obligation on France to follow the mark without setting any corresponding limits on German action.

When the international monetary system was further rocked by the first energy crisis in the fall of 1973, France was not willing to pay the cost of staying in the Snake in terms of lost reserves or lost economic growth. To protect French reserves and put French industry on a competitive footing in the wake of higher energy prices, France decided to withdraw from the Snake on January 19, 1974.[28]

## Giscard and the Ecu

The failure of the Snake to protect the French economy from the economic and monetary turmoil of the early 1970s led Pompidou's successor, Val,ry Giscard d'Estaing, to push French monetary diplomacy further in the direction of Europe. French'proposals centered around an idea that had long been one of Giscard's pet projects -- the creation of a common currency for the European Community.[29] The Community currency Giscard had in mind would not replace national currencies. Rather national currencies would remain in use within each national economy, while the Community currency would replace the dollar as a means of settlement between European countries. The Community currency would actually be a basket made up of the national currencies and would be backed by a portion of the official reserves of the member states pooled into a European Monetary Fund. Each national currency would have a central rate against the Community currency that could be changed if necessary.[30]

Giscard's designs were formed to counter external constraints. As his close political ally, Michel Poniatowski noted:

"(Europe) will make itself, slowly, progressively .... (I)t will be a response, a defense, a resistance to external pressures. The institutions will vary according to the intensity of these pressures. The weaker the constraint, the weaker the unification, but the stronger the constraint, the greater unification will be."[31]

Giscard himself identified monetary integration as the primary objective of France's European diplomacy.[32] The primary purpose of the Community currency would be to raise the specter of an alternative to the dollar as an international currency and thus perhaps nudge the US into taking the policy measures necessary to protect its currency.[33] If this succeeded, a measure of international, and thus European, monetary stability would be restored at little cost to Europe. If this failed, a Community currency could still provide a defense for the franc against dollar instability. By reducing the dollar's role in intra-EC payments it would reduce the vulnerability of EC currencies to fluctuations in the dollar.

If international markets developed for the Community currency it could provide an alternative to the deutschemark as a haven for funds fleeing the dollar and thus reduce the vulnerability of EC exchange rates to dollar instability. Integral to Giscard's design was the idea that the exchange rate of the Community currency would be managed against the dollar. Individual states would set their rates against the Community currency, whose rate in turn would be decided in relation to the dollar. In practice, primary responsibility for maintaining the Community currency's rate against the dollar would fall on West Germany, since funds flowing from dollars to marks during a dollar crisis would lift the mark against the Community currency before it would affect other national currencies in Western Europe. In effect, a Community currency along these lines would re-introduce a German obligation to defend the mark-dollar exchange rate. It was also believed the need to defend the Community currency's exchange rate would also force progress on the issue of strengthening a Community reserve fund.[34]

Although creating a Community currency would require closer European cooperation than had been undertaken by Pompidou, Giscard saw that acting collectively, Europe could achieve more with fewer resources. Less concerned with maintaining absolute freedom of maneuver, Giscard sought to reduce the extent of French dependence in international monetary affairs. A Community currency would provide France more influence internationally and more autonomy in domestic policy while shifting the brunt of the burden of European monetary stability on to West Germany. Nevertheless, Giscard remained concerned over the question of national sovereignty, continuing his predecessor's opposition to both formal processes for economic policy coordination and the creation of any supranational European institutions to manage the proposed European currency.[35]

Giscard found turning his dream of a European currency into a reality rather difficult. In March 1975, a new unit of account for the Community was defined against a basket of EC currencies, but its use was far more restricted than the French had originally hoped.[36] Giscard's decision to bring the franc back into the Snake in July 1975 was followed by a second humiliating withdrawal in March 1976, severely weakening his diplomatic efforts to create a Community currency.[37] It wasn't until 1978 that an opening for French diplomacy presented itself. A new dollar crisis and international pressures on West Germany to reflate its economy, motivated its chancellor, Helmut Schmidt, to join with Giscard in launching the European Monetary System (EMS), which came into operation in March 1979.[38]

The new EMS saw the transformation of the European unit of account into the European Currency Unit, or ECU. Each national currency was given a divergence threshold relative to its central rate against the ECU to single out which countries might be the source of instability within the system.[39] Crossing the divergence threshold would entail a "presumption" to act, unless after consultation with the other central banks, it was agreed that action was unnecessary.[40]

However, French unwillingness yet again to compromise on the issues of policy coordination and supranationality prevented the ECU from becoming the centerpiece of the EMS. The German Bundesbank thwarted French proposals for a European Monetary Fund that would manage the ECU's rate against the dollar and insisted that the ECU be treated merely as a swap arrangement by central banks, renewable every three months by unanimous consent of the member states.[41] The system of central rates against the ECU did not replace the parity grid system of the Snake, but rather existed alongside it. Furthermore, in practice, the divergence'indicator failed to operate as a symmetrical system of adjustment between EMS currencies.[42]

## The Socialist Experiment and its Aftermath

The institutions of the EMS were not strong enough to shield the franc from international turmoil or domestic folly. For one thing, the EMS proved an inadequate check against the mix of fiscal and monetary policies pursued under the Reagan Administration, which produced high US interest rates and a strong dollar. At the same time, the new French government that came to power after the election of Francois Mitterrand in 1981 embarked on a neo-Keynesian reflation of the French economy. The EMS offered France some protection from these forces, but not enough to allow France to continue following a unilateral course in economic policy. In the rather hostile international context created by US policies, the Socialist experiment in France failed abysmally, producing inflation and excessive indebtedness without any significant economic growth.[43]

Mitterrand briefly considered pulling France out of the European Monetary System in March 1983. However, the constraints of the international financial system made this alternative little less than suicidal.[44] In a report on the consequences of French withdrawal from the EMS, French Treasury Director Michel Camdessus outlined the nature of these constraints:

> As of March 31, 1983, the foreign exchange reserves, at the rate of one dollar to 7.5 francs, are on the order of 30 billion francs. With this we can hold for several days, but not weeks. Withdrawing from the Snake would create a gap of at least 20% between the franc and other major currencies. Now to devalue when we have 330 billion (francs) of debt is ipso facto to increase this debt by considerable proportions: 400 billion francs. Additionally, a gap of greater than 15% would have as its immediate consequence the absence of all control over the exchange rate. And if we leave the EMS, we lose all

European support in Ecu. Our ability to borrow would be greatly reduced .... (I)t would be necessary to increase interest rates to defend the franc. These rates, already at 14%, could jump to 20%, maybe more. With consequences one can well imagine.[45]

March 1983 turned out to be a watershed for French European monetary diplomacy. While previously France's European monetary diplomacy had been subordinated to the demands of its' domestic economic strategy, after 1983 France's domestic economic policy was subordinated to the requirements of its European monetary diplomacy. The failure of the Socialist experiment revealed and exacerbated the extent of France's vulnerability to the international financial system. As Serge July noted: "(After March 1983) it was necessary to renounce all our pretensions of molding the world in our own image and to admit that it was no longer possible to avoid the 'global crisis' ... "[46]

Unable any longer to fend off international constraints, the French Socialists made a virtue out of necessity by embarking on a bold new strategy: a complete reversal of Socialist dirigiste policies in favor of a program of economic liberalism designed to bolster the competitiveness of French industry. This strategy included anti-inflationary economic policies, a complete overhaul of the French financial system and a diplomatic initiative to construct a single European market that eventually culminated in the Single European Act.[47]

Despite the radical departure this strategy represented, there were also important continuities. Economic growth remained the most important objective of French policy. However, it was recognized that the high mobility of capital internationally coupled with floating exchange rates meant this goal would have to be achieved through international competitiveness rather than domestic reflation. Low inflation was desirable not for its own sake but only as a means to this end.[48] Therefore, European monetary integration remained desirable as a way of mitigating the harsh effects of the international environment. Likewise, French ambitions to build the single market, particularly in the area of finance, were both a reaction to international constraints and a way to force progress towards European monetary integration. As Mitterrand declared after the EC Hannover summit in June 1988:

It is not possible to envisage the liberation of capital movements without reinforcement of the European Monetary System. These things are linked together. The facts will speak for themselves.[49]

## Balladur's European Central Bank Initiative

International monetary developments in the late 1980s put further pressure on French diplomacy. By 1985, the Reagan Administration's fiscal and monetary policies had created a severely overvalued dollar and enormous American trade deficits, threatening to make US products uncompetitive, jeopardizing American jobs and creating domestic pressures for protectionism. The Plaza Accord of September 1985 initiated a process of international macro-economic policy coordination among the Group of Five -- the United States, Japan, West Germany, France and the United Kingdom -- designed to reduce the value of the dollar.[50] However, dissatisfied with the pace of the dollar's decline, US Treasury Secretary James Baker engaged in a strategy of deliberately "talking down" the dollar, beginning in the summer of 1986.

International monetary turmoil surrounding the dollar provoked another EMS crisis during January 1987, in which the deutschemark was forced into a 3% revaluation.[51] This crisis did produce two rather favorable consequence for France. First, the Louvre Accords of February 1987 established a confidential system of target zones between the G5 currencies. This went some way towards the French objective of re-establishing the primacy of exchange rate stability in the international monetary stability -- at least in principle.[52] Second, the Basle-Nyborg accord of September-October 1987 strengthened the EMS by allowing greater intra-marginal or "orangelight" intervention that would help EMS countries counter speculation against their currencies by allowing them to use EMS credit facilities before their currencies actually reached their intervention limits.[53]

However, these innovations failed to prevent or address the crisis created by the crash of October 19, 1987, when the New York Stock Exchange suffered a 500 point loss -- a decline of 20%, the largest drop in history, in both relative and absolute terms. The European Monetary System was spared another realignment only by coordinated French-German action on short-term interest rates. The Bank of France raised rates while the Bundesbank lowered them, creating a 5% spread that effectively killed speculation against the franc.[54]

It was in response to this international turmoil, that French finance minister Edouard Balladur proposed the creation of a European central bank in January 1988.[55] Comments made by Balladur at the time clearly show the role that international factors played in this decision.

Europe cannot accept living under the threat of international monetary and financial disorders. It is necessary to reinforce its economic, monetary and financial organization. Europe must have a common attitude towards the dollar and the yen. It must come to speak with one voice on the international monetary scene.[56]

Balladur's central bank initiative represented a step beyond previous French proposals to create a reserve fund and a significant movement towards closer integration. However, in some significant ways Balladur's proposals reflected a continuing French desire to minimize surrendering national sovereignty. If the French desired a European central bank, they had a very particular view about what kind of bank they wanted. A "central bank of central banks" was the desired goal which would complement, but not replace national central banks. The European central bank itself would be outside the institutional framework of the European Community and clearly subordinated to the political control of the national governments. It would manage a portion of the member states' official reserves and act on international markets to protect EC exchange rates against external disturbances. For their part, national banks would act to maintain intra-EC parities according to precise obligations for intervention and adjustment affecting strong as well as weak currency countries. It was also clear from this arrangement that the ECU would be a point of reference, a reserve instrument and a means of intra-European payments, but would not replace national currencies within their own states.[57]

Balladur's central bank initiative started the process that eventually culminated in the signing of the Maastricht Treaty in December 1991. The Hannover EC summit of June 1988 approved the appointment of an expert committee to report on monetary integration. This committee produced the Delors report in April 1989, which delineated a three stage process for creating a European central bank and a single European currency. The Madrid summit of June 1989 endorsed the Delors report and called for an intergovernmental conference to draft a new treaty for European monetary integration. The Strasbourg summit of December 1989 decided to convene this intergovernmental conference in 1990. The Rome summit in October 1990 approved an agenda for economic and monetary union which would include a European central bank and fixed exchange rates. The intergovernmental conference itself, which would produce the Maastricht Treaty, opened in Rome in December 1990.

## Negotiating Maastricht

The French draft proposals for a treaty on economic and - monetary union, presented to the intergovernmental conference in January 1991 by Balladur's successor Pierre B,r,govoy, marked a significant advance over any previous French proposal in its willingness to surrender a portion of French national sovereignty. Whereas previous French proposals had called for the creation of a common European currency that would coexist with national currencies, Bérégovoy's draft called for the transformation of the Ecu into a single currency that would replace all national currencies within the Community -- including, needless to say, the franc. Furthermore, it called for a European system of central banks, in which national central banks would be required to implement the decisions of a politically independent European Central Bank. Although the European central bank would have an obligation to support the general economic policy of the EC, established by national leaders at EC summit meetings, it was also stipulated that this should not contradict with the objective of maintaining price stability.[58]

A number of important developments since Balladur's central bank initiative help explain the more far-reaching concessions on sovereignty in Bérégovoy's draft treaty. First, although the international monetary system remained relatively calm during this period, the G-5 process of international monetary coordination was virtually abandoned by the United States, virtually guaranteeing disorderly international monetary conditions in the future.[59] Second, in line with EC efforts to create a single

European financial market, France had abolished all its exchange controls in January 1990. As a result, the franc was more exposed to international pressures than it had ever been before; therefore, the need to provide further protection for EC exchange rates also increased.

However, far and away the most important influence on French European monetary diplomacy during this time was the reunification of Germany. The Cold War division of Germany and the subordination of its western half within NATO had provided France the opportunity to pursue an independent foreign policy. The end of this division threatened to loosen unified Germany from its Cold War moorings. In this new environment, France's leaders feared that its own independence could only encourage German independence, which in turn would inevitably mean French marginalization. The uncomfortable trade-off between sovereignty and influence had intensified. Under these circumstances, French leaders decided that the process of European integration, and in particular the process of monetary integration, needed to be accelerated to preserve its influence before its position eroded.[60]

In the final version of the Maastricht Treaty signed in December 1991, France surrendered even more sovereignty than had been contemplated in Bérégovoy's draft treaty. Member states committed themselves to creating a European central bank and a single currency by the year 1999, goals already annunciated for French diplomacy.[61] However, to obtain these objectives, France accepted a number of German pre-conditions that traditionally had been anathema to its European monetary diplomacy. The new European Central Bank would be independent of political control and committed to the principle of price stability. Additionally, all national central banks would be made politically independent as well. Furthermore, France accepted meaningful policy coordination for the first time, through the strict convergence criteria for economic policy established in the treaty, covering price stability, interest rates, deficits, debt and currency stability.[62]

However, despite the wide ranging sacrifice of national sovereignty the Maastricht Treaty represented, France continued to seek restrictions on the idea of supranationality. While France was willing to give up more of its national independence, it still sought ways of keeping Community institutions under the direction and control of national governments. While the new European central bank would be independent of [political control, the Maastricht treaty gave national governments, through the Council of Ministers, the power to set the Ecu's exchange rate against other currencies.[63] While this had to be done in consultation with the European Central Bank, it should be noted that an important instrument of monetary policy, the exchange rate, rests with national governments collectively and not with the European cental bank. Furthermore, despite the rather explicit convergence criteria established by the Mastricht Treaty, the final decision on which countries will participate in the central bank and single currency must be made collectively by a summit meeting of the political leaders of national governments by qualified majority vote.[64]

## After Maastricht

The Maastricht Treaty expressed a commitment by the European Community to erect new monetary institutions, but it did not put them in place. On June 2, 1992, Denmark's narrow rejection of the treaty in a binding referendum provoked a prolonged crisis over ratification. Mitterrand acted quickly to try to save the Treaty. The day after the Danish vote, Mitterrand issued a joint statement with German chancellor Helmut Kohl, reaffirming their deUermination to implement the provisions of the Maastricht Treaty. To throw more weight behind the treaty, he also announced that France would hold its own referendum to ratify the Maastricht Treaty. On the same day, however, the British government suspended further consideration of the Maastricht Treaty until after the French referendum and the resolution of the crisis created by the Danish vote.

French leaders soon found themselves engaged in a two front battle at the domestic and international levels to save the Maastricht Treaty. On the domestic front, Mitterrand had assumed that with opinion polls showing a two to one margin in favor of the treaty, he could safely provide a boost to the treaty, bolster his own popularity, and exacerbate divisions within the opposition. However, a disparate collection of anti-Maastricht forces each with their own separate agendas had managed to erode popular support for the treaty. By the end of August, opinion polls indicated that France was almost equally divided over the Maastricht Treaty.

In the face of this unexpected opposition, the French government launched a campaign emphasizing the inherent dangers to France of not ratifying the Maastricht treaty. Appearing in a televised debate on September 3, Mitterrand emphasized the protection Maastricht would offer against external forces. He warned that Maastricht was a necessary corollary to the single market, without which Europe, and France along with it, would be economically and politically marginalized.[65] France's finance minister, Michel Sapin, declared that Maastricht would allow France to recover its monetary sovereignty and warned that without Maastricht, any chance of restricting German dominance over Europe's economic policy would disappear.[66] And both the French prime minister and foreign minister warned that failure to ratify would mean a weakening of French-German ties both politically and economically, leaving France weaker and unable to constrain Germany from steering an independent course.[67] As it turned out, French voters narrowly ratified the Maastricht Treaty on September 20, by a vote of 51% to 49%.

On the international front, the French response to the crisis created by Danish rejection of the treaty was to insist publicly that Maastricht could be implemented without Denmark by the remaining members of the Community.[68] An emergency meeting of EC foreign ministers in Oslo, Norway, endorsed the joint French-German position that Maastricht would not be renegotiated or modified. The remaining members of the Community would proceed with ratification, leaving the door open for Denmark to reconsider its decision at a later date. The French-German position amounted to a fairly explicit threat to go forward without Denmark, and even Britain if necessary, rather than allow the treaty to be destroyed.

The threat of exclusion proved effective. The EC summit at Edinburgh in December 1992, issued a number of "clarifications", that allowed the Danish government to present the treaty in a second referendum in May 1993, in which Danish voters ratified it decisively. In July 1993, the British House of Commons finally ratified the treaty after long and acrimonious debate, but only after John Major's government made it an issue of confidence. After surviving a challenge in Germany's constitutional court in October, the treaty finally went into effect on November 1, 1993.

Yet despite the ultimate success in ratifying the Maastricht treaty, a series of crises within the European Monetary System, seriously challenged the idea that the Community would be able to implement it, at least in the area of economic and monetary union. These crises resulted from a confluence of forces. First, the prolonged political crisis over ratification reversed earlier expectations in financial markets that EMU would succeed. Second, the liberalization of financial flows within the Community, the key element in building the single market in finance, made European exchange rates even more susceptible to external disruption than they had been in the past. And third, in an effort to head off inflationary pressures stemming from German unification, the Bundesbank raised German interest rates in July 1992 to their highest level in over 60 years.

Things came to a head in September 1992 as the French' referendum approached, forcing a crisis within the EMS. On September 16, Great Britain and Italy suspended their participation in the exchange rate mechanism of the EMS, while Spain devalued the peseta by 5%.[69] The French managed to maintain the franc's value, but only by increasing their own interest rates and by engaging in massive intervention on foreign exchange markets in conjunction with Germany.

A second crisis erupted within the EMS in August 1993. This was primarily a crisis surrounding the French franc. The new right-wing government that came to power in March 1993, engaged in an aggressive policy of lowering French interest rates to stimulate growth, cutting the Bank of France's intervention rate nine times, from 9.1% to 6.75%, in the space of 3 months, April to July 1993. Based on the fact, that the French economy had been outperforming Germany on inflation since July 1991, the new government probably believed that there was room to make significant interest rate reductions without threatening the value of the franc. Indeed, at the end of June, a senior Bank of France official suggested that France could share the anchor role within the European Monetary System with Germany.[70] At about the same time, France's new finance minister, Edmond Alphand,ry, suggested that based on the soundness of its economy France was ready to take the lead in setting European interest rates and began pressing Germany to cooperate in "concerted" interest rate reductions.[71]

These efforts to slip France loose from its D-mark fetters backfired. International markets interpreted 'these moves as a signal that with unemployment above 12% and a presidential election less than two years away, France was ready to make a dash for growth and willing to abandon its franc fort policy to achieve it if necessary. Concerted French-German exchange rate intervention could not dampen the rush from the franc. Under severe speculative pressures, the EC countries agreed on August 2, 1993 to widen the margins of fluctuation between their currencies from ñ2.25% to ñ15%.[72]

## Conclusion

Rather than cool French ardor for monetary integration, successive crises in the EMS has intensified it. The French seem to have drawn two lessons from the August 1993 EMS crisis. First, despite strong economic fundamentals and a better inflation rate than Germany for more than two years running, the franc remains vulnerable to the vagaries of the international financial system. Second, existing European monetary institutions were not strong enough to contain pressures against European exchange rates. Thus rather than cool French ardor for monetary integration, successive EMS crises have intensified it.

French policy makers continue to declare that the Maastricht timetable can and must be met. They insisted that the European Monetary Institute, forerunner to the European Central Bank, begin operation as scheduled on January 1, 1994. Furthermore, they have tried to accelerate the process of integration, arguing that an "inner core" of states might be able to enter EMU by 1997, the earliest deadline set out in the Maastricht treaty. Indeed, France's current finance minister used the latest EMS crisis in March 1995 to argue for rapid movement towards EMU: "The sooner, the better."[73]

French support for EMU is borne out by its determination to make its economy meet the convergence criteria called for in the treaty, despite high levels of unemployment. France has chosen closer integration not for its own sake, but because of its vulnerability to international monetary disorder. The unification of Germany certainly played an important role by accelerating the process and increasing tile risks of failure. Maastricht is seen as the last best chance to end German monetary dominance and French vulnerability to international monetary disruptions. If EMU fails, therefore, it won't be because of the French.

However, the trend towards greater sacrifice of national sovereignty by France for the sake of European monetary integration precedes Germall unification and French vulnerability to the international monetary system continues after it, as shown by subsequent EMS crises. Since the constraints of increased international capital mobility are likely to intensify rather than abate in the future, French interest in monetary integration, and the willingness to sacrifice sovereignty to achieve it will also undoubtedly increase. As a result, France is likely to continue choosing influence over sovereignty.

## FOOTNOTES

1 To use another metaphor, Fran‡oise de la Serre has called monetary Union the "motor" for further integration in "Le trait‚ d'Union europ‚ene," Regards sur l'Actualit‚, April 1992, p. 13.
2 See for example Wayne Sandholtz, "Choosing Union: monetary politics and Maastricht," International Organization, Winter 1993; Barry Eichengreen & Jeffrey Frieden, "The Political Economy of European Monetary Unification," Economics and Politics, July 1993; Robert O. Keohane and Stanley Hoffmann, "Institutional Change in Europe in the 1980s" in The New European Community: Decisionmaking and Institutional Change ed. by Robert O. Keohane and Stanley Hoffmann (Boulder, Co: Westview Press, 1991); C. Randall Henning, "European Monetary Integration in its Global Context," unpublished paper presented before the American Political Science Association, Washington, D.C., August 1993; David M. Andrews, "Scapegoating, Exit Costs, and Credibility: The Politics of Exchange Rate Regimes," unpublished paper presented before the American Political Science Association, Washington, DC, August 1993; David R. Cameron, "British Exit, German Voice, French Loyalty: Defection Domination and Cooperation in the 1992-93 ERM Crisis," unpublished paper presented before the Third International Conference of the European Community Studies Association, Washington, D.C., May 1993; Lisa L. Martin, "International and Domestic Institutions in the Process," Economics and Politics, July 1993; and John B. Goodman, Monetary Sovereignty: The Politics of Central Bankinq in Western Europe (Ithaca, NY: Cornell University Press, 1992).

3 Wayne Sandholtz, "Choosing Union:monetary politics and Maastricht," International Organization, Winter 1993.
4 Barry Eichengreen & Jeffrey Frieden, "The Political Economy of European Monetary Unification," Economics and Politics, July 1993.
5 Barry Eichengreen & Jeffrey Frieden, "The Political Economy of European Monetary Unification," Economics and Politics, July 1993.
6 See Cameron, "British Exit, German Voice, French Loyalty," and Goodman, p. 183.
7 See Philip G. Cerny, The Changing Architecture of Politics: Structure, Agency and the Future of the State, (London: Sage, 1990), pp. 212-222.
8 Morris Goldstein, David Folkerrs-Landau, Peter Garber, Liliana Rojas-Suarez and Michael Spencer. "International Capital Markets: Part I. Exchange Rate Management and International Capital Flows," World Economic and Financial Surveys (Washington, DC: International Monetary Fund, April 1993).
9 This strategy was a direct response to the political, economic and social stagnation under the Third Republic which was seen as responsible for the defeat and humiliation of France in 1940. See Richard F. Kuisel, Capitalism and the state in modern France (New York: Cambridge University Press, 1981), pp. 157, 171, 203, 215, 249. Also see Jean-Pierre Rioux, The Fourth Republic, 1944-1958, trans. by Godfrey Rogers (New York: Cambridge University Press, 1987), pp. 173-174; Charles de Gaulle, The War Memoirs: Salvation, 1944-1946 (New York: Simon and Schuster, 1960), pp. 111-112, 131-136; Michel Debr‚ and Pierre MendŠs-France, Le Grand D‚bat (Paris: Goutier, 1966), pp. 15-16; and Henrik Schmieglow and MichŠle Schmieglow, "The new mercantilism in international relations: The Case of France's External Monetary Policy," International Organization, Spring 1975, pp. 370, 381-82. Also Peter Hall, Governing the Economy: The Politics of State Intervention in Britain and France (New York: Oxford University Press, 1986), p. 139 and Suzanne Berger, "Liberalism reborn: the new liberal synthesis in France," in Contemporary France, ed. by Jolyon Howorth & George Ross, (London: Frances Pinter, 1987), p. 90.
10 The quote istaken from Michael Maurice Loriaux, International Changeand Political Adaptation: the French Overdraft Economy inthe Seventies (dissertation) (Princeton University, June 1985), p. 7. Loriaux's dissertation was later published as France After Hegemony: International Change and Financial Reform. (Ithaca: Cornell University Press, 1991).
11 The presumption of assured borrowing power in the French overdraft economy had discouraged French companies from holding precautionary reserves and caused French financial markets to atrophy. This made the demand for credit inelastic in France. When interest rates increased in France, banks and industries had to borrow more heavily to cover their indebtedness or go bankrupt. If the Bank of France did not accommodate the banking system's demand for credit then the banks would go under and with them French industry. See Loriaux, France After Hegemony, pp. 9, 55-75; and Jean Cordier, "La politique des taux d'int‚rˆt: theories et pratiques depuis 1945," Regards sur l'actualit‚, July-August, 1987; pp. 29-30.
12 The deutschemark is a preferred substitute for the dollar - largely because of West Germany's perceived political stability, its liberal policy on foreign investment, the liquidity of markets for the Deutschemark and the Bundesbank's commitment to maintaining its value. For .a good explanation of this phenomenon, see Elke Thiel, "Deutschmark Between the Dollar and the EMS," Aussenpolitik, English edition, Vol. 33, No. 1, 1982. Also see Jacques van Ypersele, The European Monetary System: Oriqins, operation and outlook (Chicago: St. James Press, 1985), p. 99.
13 See Loriaux, France After Hegemony, pp. 55-75.
14 Quoted in Alfred Grosser, The Western Alliance. trans. by Michael Shaw. (New York: Vintage Books, 1980), p. 235. (This quote also appears in a slightly different translation in Michael Loriaux, France After Hegemony: International Change and Financial Reform, (Ithaca, NY: Cornell University Press, 1991), p. 187. Raymond Aron's assessment of de Gaulle's thinking is also worth mentioning: "The de facto equivalence which gradually became established between gold and the dollar scandalized General de Gaulle, quite apart from any academic economic considerations, because it set the seal of approval on a kind of special entitlement for the United States to mint money. They paid their foreign debts with their own currency; then when the dollar was devalued, holders of dollar reserves had to take the consequences." In Defense of Decadent Europe, trans. by Stephen Cox, (New York: University Press of America, 1979), p. 190.
15 See Edward L. Morse, Foreign Policy and Interdependence in Gaullist France (Princeton, NJ: Princeton University Press, 1973), pp. 59-61; van Ypersele, p. 36; Edward A. Kolodziej, French

International Policy Under De Gaulle and Pompidou: The Politics of Grandeur (Ithaca, NY: Cornell University Press, 1974), pp. 242-47.
16 Susan Strange, "International Monetary Relations," in Vol. 2 of International Economic Relations of the Western World, 19591971 ed. by Andrew Shonfield (London: Oxford University Press, 1976), pp. 300-301. Also see Morse, p. 245; Grosser, p. 236; and Kolodziej, pp. 193-194; 201-202.
17 Quoted by Kolodziej, p. 204, from a statement made before the French cabinet, March 20, 1968.
18 Kolodziej, p. 205; Strange, "International Monetary Relations," pp. 284-86.
19 Michel Jobert, M‚moires d'Avenir (Paris: Le Livre de Poche, 1976), p. 157; International Currency Review, July/August, 1969, p. 37. The French devaluation was complemented by an effective 9.29% revaluation of the Deutschemark completed on October 24, 1969.
20 Loukas Tsoukalis, The Politics and Economics of European Monetary Integration (London: George Allen & Unwin, 1981), pp. 9496; van Ypersele, pp. 39-40. Also see address given by Val‚ry Giscard d'Estaing at l'Ecole Centrale, 25 January 1974. MinistŠre de l'Economie et'des Finances, Service de l'Information, Allocution Minist‚rielle, Diffusion 2/74/3.
21 Tsoukalis, pp. 94-96; van Ypersele, pp. 39-40. Also see address given by Val‚ry Giscard d'Estaing at l'Ecole Centrale, 25 January 1974. MinistŠre de l'Economie et des Finances, Service de l'Information, Allocution MinistŠrielle, Diffusion 2/74/3. Under the rules of the Bretton Woods system, all currencies were allowed to fluctuate by a maximum of ñ 0.75% against the dollar. This translated into a possible spread of 1.5% between European currencies, since at any given moment one currency could be at the floor of its dollar margin while another was at its ceiling. As a result, most payments between EC countries were made in dollars, since the exchange risk was lower.
22 See Pompidou's press conference at the Elys‚e, July 2, 1970 in Georges Pompidou, Entretiens et discours, Vol. II, ed. by E. Balladur, (Paris: Plon, 1975), pp. 35-36.
23 See Pompidou's press conference in Brussels, May 26, 1971 in Georges Pompidou, Entretiens et discours, Vol. II, ed. by E. Balladur, (Paris: Plon, 1975), p. 83.
24 On the issue of policy coordination, the French were resistant to any attempt to put an external control on their highgrowth strategy. Furthermore, they argued that fixed exchange rates within the EC would force economic policy convergence. This was the essence of the dispute between "monetarists" and "economist" positions within the Werner Group. Because the French approach stressed exchange rate concertation over policy coordination, it was labelled the "monetarist" approach and enjoyed the backing of Belgium, Luxembourg and the European Commission. The German position was named the "economist" approach, since it called for economic policy coordination before progress in the monetary field, and it had the support of the Dutch and occasionally the Italians. See van Ypersele, pp. 32-33; D.C. Kruse, Monetary Integration in Western Europe, (London: Butterworth, 1980), p. 63. With respect to supranational institutions, the Germans proposed creating two supranational institutions in the final stage of economic and monetary union: a Community decision-making center that would formulate economic policy for the EC as a whole and a Community system of central banks modeled on the US Federal Reserve System that would independently conduct the Community's internal and external monetary policies. See Peter Coffey and John R. Presley, European Monetary Integration. (New York: St. Martin's, 1971), pp. 49-56. Pompidou made clear his adamant opposition to any form of supranationality in a number of statements during Jai]uary 1971. See, for example, his remarks during a press conference on January 21, 1971 in L'Ann‚e Politique, 1971, p. 246; and his remarks at a dinner given in honor of Willy Brandt opening their bilateral summit in Paris on January 25, 1971 found in Georges Pompidou, Entretiens et discours, Vol. II, ed. by E. Balladur, (Paris: Plon, 1975), pp. 157-159.
25 Coffey and Peters, pp. 49-56.
26 The Smithsonian Agreement of December 1971 re-established a fixed-exchange rate regime, widening the margin of fluctuation around the dollar from 75% to 2.25% This meant the possible fluctuation between EC currencies now stood at 4.5%. In early 1972, EC countries decided to narrow this margin to 2.25% rather than the 1.2% agreed to in March 1971 but never implemented. See Strange, "International Monetary Relations," pp. 343-44; R. Solomon, The International Monetary System, 1949-1976: An Insider's View. (New York: Harper & Row, 1977), p. 205.
27 Kruse, pp. 158-165. Also see Willy Brandt, People and Politics: The Years 1960-1975, trans. by J.H. Brownjohn. (London: Collins, 1978), p. 273 and the comments by Giscard reported in his memoirs, Le Pouvoir et la Vie (Paris: Compagnie 12, 1988), pp. 140-141.

28 For French reluctance to leave the Snake, see comments by Giscard, pp. 139-141; and Jobert, p. 184. Also see l'Ann,e Politique, 1974, pp. 190-91; International Currency Review, January/February 1974, p. 50; and Schmieglow & Schmieglow, pp. 386388.

29 As de Gaulle's finance minister, Giscard had tacitly supported the idea of a Community currency. See Tsoukalis, pp. 6061, 64-65; and Val,ry Giscard d'Estaing, "The International Monetary Order," in Monetary Problems of the International Economy ed. by Robert A. Mundell and Alexander K. Swoboda, (Chicago: University of Chicago Press, 1969), pp. 17-18. However, this idea never enjoyed the favor of de Gaulle or his followers, who were not willing to countenance any compromise of national sovereignty. After leaving office in January 1966, Giscard openly called for the creation of a Community currency on several occasions, especially during the franc-mark crisis of 1968-69. See Dennis Swann, The Economics of the Common Market, 5th ed., (New York: Penguin, 1984), pp. 179-180; le Figaro, March 7, 1969; and le Monde, April 5, 1969. However, when appointed Finance Minister again in June 1969, he became silent on the issue. Gaullists remained the mainstay of the governing majority and Pompidou, though desiring closer European cooperation, was also opposed to the idea of a Community currency. As president, however, Giscard had more leeway to pursue this idea. Giscard's idea had a following within France's administrative elite, especially among officials of the Finance Ministry. and the Banque de France. One Frenchman in particular who shared Giscard's enthusiasm for a Community currency was Raymond Barre. As vice-president of the commission and responsible for financial and monetary affairs he presented the Commission's position during EC meetings. On several occasions he called for progress on creating a Community currency. He would later become Giscard's prime minister.

30 See Giscard's comments in "The International Monetary Order," pp. 17-18; and le Combat, 30 November 1969.

31 Quoted in Jean Bothorel, Le Pharaoh: Histoire du septennant giscardien (Paris: Grasset, 1986), pp. 159.

32 Val,ry Giscard d'Estaing, French Democracy, trans. by Vincent Cronin (Garden City, NY: Doubleday, 1977), p. 116. Also see address given by Val,ry Giscard d'Estaing at l'Ecole Centrale, 25 January 1974. MihistŠre de l'Economie et des Finances, Service de l'Information, Allocution Minist,rielle, Diffusion 2/74/3.

33 On this point, Giscard's comments in The Economist, August 24, 1985, p. 42 are particularly noteworthy: "From my past experience, I know that any United States administration is interested in discussions on the international monetary system mostly when it sees the role of the dollar being fairly challenged. It is up to us Europeans to build this fair challenge through bold steps towards the construction of the monetary union of Europe, and the growing use of a common instrument." Also see Daniel Biron and Alexander Faire, "Le Mark Souverain," Le Monde Diplomatique, November 1978.

34 For explanations of how the French expected a common currency to work, see Jean-Paul Escande, "L'Harmonisation Mon,taire et FinanciŠre au sein de la C.e.e.," Journal Officiel, Avis et Rapports du Conseil Economique et Social, Wednesday November 27, 1987, p. 64; Commissariat G,n,ral du Plan, Quelle Strateqie Europ,enne pour la France dans les Ann,es 80? (Paris, April 1983), p. 111; Dominique Rambure, "Les d,veloppements et les perspectives du march, de l'Ecu," Bulletin du Credit National, No. 58, 1988, p. 14; Pierre Drouin, "L'ECU sauvera le franc," le Monde, March 5, 1985; Gilbert Bierdone, "Le Dollar ou i'ECU," La Croix, February 5, 1987. It is important to realize that what the French were calling for at this juncture was a common currency, a monnaie commune, and not a single currency, a monnaie unique, that would replace all existing national currencies. If the Community currency became widely accepted as an international currency, it could provide Community members with seignorage benefits, allowing them to finance their balance of payments on the basis of the willingness of the rest of the world to hold the Community currency. See Swann, p. 179. 'This would mitigate an important constraint on France's ability to sustain high growth policies.

35 Although opposed to de Gaulle's notion of l'Europe des parries, Giscard opposed any supranational conception of Europe that would swallow up France's identity. "As for the necessary steps (towards Europe taking its place in the world), they must be decided by national governments and parliaments, the only institutions able to organize the confederal union of Europe. The completion of economic and monetary union and the realization of European Confederation -- these are France's inner bastion of solidarity." Giscard, French Democracy, p. 116. Also see Fran‡ois Lancel, Val,ry Giscard d'Estaing: De Chamalieres … l'Elys,e, (Paris: Pierre Belfond, 1974), p. 167; and Bothorel, p. 159.

36 The existing unit of account had been set at the old gold parity of the dollar. The dollar's inconvertibility made this system impracticable and the need for a new unit related to the EC's national currencies was recognized. Use of the new unit of account would be limited to the European Investment Bank and the denomination of aid to African, Caribbean and Pacific countries under the Lom, convention. See l'Ann,e Politique, 1975, p. 105; Le Figaro, 19 March 1975; and Le Monde, March 20, 1975.
37 For details see Catherine Nay, le Double M,prise, (Paris: Grasset, 1980), p. 171; and Volkmar Lauber, The Economy of France: From Pompidou to Mitterrand. (New York: Praeger, 1983), p. 84.
38 The United States in particular pressed the "locomotive theory", arguing that due to the strength of their economies and their balance of payments surpluses, Germany and Japan had a special responsibility to stimulate their own economies to keep the world economy out of recession. Jocelyn Statler, "The European Monetary System: From Conception to Birth," International Affairs (London), 1985, pp. 212-213; and Kruse, p. 241.
39 See Peter Ludlow, The Making of the European Monetary System. (London: Butterworth, 1982), pp. 165, 183-184; van Ypersele, p. 49; Statler, p. 219; le Monde, 16 September 1978, p. 4; le Monde, 6 February 1979; and The Economist, September 23, 1978.
40 Ludlow, pp. 230-239; van Ypersele, pp. 49, 56-57; and Statler, p. 219.
41 George Zis, "The European Monetary System 1979-84: An Assessment," Journal of Common Market Studies, Vol. XXIII, No. 1, September 1984, p. 58; Ludlow, pp. 168-169; and van Ypersele, pp. 49, 100-102.
42 This was due to technical problems surrounding British participation and continued disagreement over what the "presumption" to act meant in practice. On these points, see van Ypersele, pp. 53-57, 87, 111; and Zis, p. 66.
43 For good explanations of the Socialist experiment in economic policy, see Philippe Bauchard, La Guerre des Deux Roses: du rˆve … la r,alit,, 1981-1985 (Paris: Grasset, 1986); Peter A. Hall, Governing the Economy: The Politics of State Intervention in Britain and France, (New York: Oxford University Press, 1985); Thierry Pfister, La Vie Quotidienne … l'Elys,e au temps de l'Union de la Gauche (Paris: Hachette, 1985); Catherine Nay, Les Sept Mitterrand ou les m,tamorphoses d'un septannat (Paris: Grasset, 1988); The Mitterrand Experiment ed. by George Ross, Stanley Hoffmann & Sylvia Malzacher (New York: Oxford University Press, 1987); Claude Estier and V,ronique Neiertz, V,ridique Histoire d'un septannat peu ordinaire (Paris: Grasset, 1987); and Pierre Mauroy, C'est Ici le Chemin (Paris: Flammarion, 1982).
44 For good discussions of the events of March 1983, see Serge July, Les Ann,es Mitterrands, (Paris: Grasset, 1986), pp. 94-100, 106; Nay, p. 95-108; Estier and Neiertz, p. 159-162; Pfister, p. 257-70; Bauchard, pp. 141-147; and Loriaux, After Hegemony, pp. 230-231.
45 Quote from Nay, p. 100. Camdessus' report was delivered to the budget minister, Laurent Fabius. Camdessus would later recall that Fabius's face dropped after he delivered this report. Bauchard, La Guerre des Deux Roses, pp. 144-45.
46 Serge July,'Les Ann,es Mitterrand (Paris: Grasset, 1986), p. 13.
47 For the overhaul of France's financial system, see Loriaux, France After Hegemony, pp. 220-227; Dominique Plihon, "La mutation financiŠre en France : enjeux, strategies et implications," Regards sur l'Actualit,, No. 133, July-August 1987; Jean Cordier, "La politique des taux d'int,rˆt: theories et pratiques depuis 1945," Regards sur l'actualit,, July-August, 1987, p. 28; MinistŠre de l'Economie, Finance, et Budget, Le Livre Blanc sur la Reforme du Financement de l'Economie (Paris: La Documentation Fran‡aise, 1986). For the French diplomatic initiative leading to the Single European Act, Ouelle Strat,gie Europ,enne pour la France dans les Ann,es 80?, Rapport du Groupe de Travail sur l'Europe, Commissariat G,n,ral du Plan, presided by Jacques Moreau and directed by Michel Richonnier, (Paris, April 1983); Fran‡ois Lamoureux, "L'Europe sort du blocage institutionnel," Projet, August 1986; Philippe Moreau Defarges, "'...J'ai fait un rˆve...' Le president Fran‡ois Mitterrand, artisan de l'union europ,enne," Politique EtrangŠre, p. 359; and Werner Ungerer, "Post-Fontainbleau European Perspectives," Aussenpolitik (English edition), Vol. 35, No. 4.
48 See French Treasury Director Jean-Claude Trichet's discussion of "competitive disinflation" in "Dix ans de d,sinflation competitive en France," Les Notes bleus de Bercy, 16 October 1992.
47 For the overhaul of France's financial system, see Loriaux, France After Hegemony, pp. 220-227; Dominique Plihon, "La mutation financiŠre en France : enjeux, strategies et implications," Regards sur l'Actualit,, No. 133, July-August 1987; Jean Cordier, "La politique des taux d'int,rˆt: theories et

pratiques depuis 1945," Regards sur l'actualit,, July-August, 1987, p. 28; MinistŠre de l'Economie, Finance, et Budget, Le Livre Blanc sur la Reforme du Financement de l'Economie (Paris: La Documentation Fran‡aise, 1986). For the French diplomatic initiative leading to the Single European Act, Ouelle Strat,gie Europ,enne pour la France dans les Ann,es 80?, Rapport du Groupe de Travail sur l'Europe, Commissariat G,n,ral du Plan, presided by Jacques Moreau and directed by Michel Richonnier, (Paris, April 1983); Fran‡ois Lamoureux, "L'Europe sort du blocage institutionnel," Projet, August 1986; Philippe Moreau Defarges, "'...J'ai fait un rˆve...' Le president Fran‡ois Mitterrand, artisan de l'union europ,enne," Politique EtrangŠre, p. 359; and Werner Ungerer, "Post-Fontainbleau European Perspectives," Aussenpolitik (English edition), Vol. 35, No. 4.

48 See French Treasury Director Jean-Claude Trichet's discussion of "competitive disinflation" in "Dix ans de d,sinflation competitive en France," Les Notes bleus de Bercy, 16 October 1992.

49 Mitterrand went on to warn his partners that if sufficient steps were not taken in the monetary field, "certain countries" might have to evoke the safeguard clauses agreed to at the June ECOFIN meeting, rendering the liberalization of capital flows ineffective. See his remarks quoted in Le Monde, June 30, 1988, p. 3. Comments made by Michel Rocard before he became prime minister in May 1988 are also indicative of French perceptions of the connection between the single market and monetary integration: "There is an absolute contradiction, recognized by liberal experts themselves, between the grande march, int,rieur and the maintenance of the European Monetary System." Interview with le Point, April 6, 1988, p. 27. Also see Rocard's comments in an interview given after becoming prime minister in le Monde, 12 May 1988, p. 10. Also see Christian Goux, "La Liberation des Mouvements de Capitaux en Europe et la Question d'une monnaie europ,enne," AprŠs-demain, February 1988, p. 25.

50 Yoichi Funabashi, Managing the Dollar: From the Plaza to the Louvre, 2d ed., (Washington, DC: Institute of International Economics, 1989), p. 9.

51 The Dutch florin was also revalued by 3%, while the Belgian franc was revalued by 2%. All other currencies, including the franc, remained at their old parity against the ECU.

52 For details, see Funabashi, pp. 163, 180, 186; Also see Paul Fabra, "Le SME: un ,talon-deutschemark ou une zone franc?" Le Monde, October 27, 1987.

53 For details, see The Economist, March 26, 1988.

54 See Le Figaro, November 6, 1987; La Lib,ration, November 6, 1987; The Economist, December 12, 1987, p. 83.

55 Le Monde, January 8, 1988; Le Figaro, January 8, 1988; Financial Times, January 8, 1988, p. 1. Also see Paul Fabra, "La banque centrale europ,enne," Le Monde, January 12, 1988, p. 40.

56 Comments made in an interview in Le Figaro, January 14, 1988.

57 See interview with Edouard Balladur in Le Figaro, January 14, 1988; Le Monde, January 15, 1988; Le Point, May 9, 1988, p. 63; Le Monde, June 5-6, 1988, p. 13; La Croix, March 12, 1988, p. 2; and La Tribune de l'Economie, March 4, 1988.

58 The text of France's draft proposals for economic and monetary union is contained in Pierre B,r,govoy, "Le projet fran‡ais sur l'Union ,conomique et mon,taire," Les Notes Bleus, (MinistŠre de l'Economie, des Finances et du Budget), No. 532, March 18, 1991.

59 In May 1988, American Treasury Secretary James Baker rejected proposals made by Balladur to create a "global EMS" around the G-5, declaring that the process of economic policy coordination had already reformed and reinforced the system of floating exchange rates. See Le Monde, February 24, 1988, p. 40; le Monde, May 25, 1988, p. 40.

60 See Stephen Philip Kramer, "The French Question," The Washington Quarterly, Autumn 1991, especially pp. 83 and 86; and Stanley Hoffmann, "French Dilemmas and Strategies in the New Europe," in After the Cold War, ed. by Robert O. Keohane, Joseph S. Nye and Stanley Hoffmann, pp. 128-132.

61 The exact reason why France dropped its traditional support for a common European currency in favor of a single European currency as called for in the B,r,govoy draft and later adopted in the Maastricht Treaty itself is not clear. It was certainly not a concession to the Bundesbank's position, since its president at the time considered it a French ploy to gain control over the Bundesbank. Financial Times, January 10, 1991, p. 12. Two factors were probably at work. First, French policy-makers may have come to believe that the ECU would never fully develop as an international currency so long as it remained merely a basket of national currencies. Second, French leaders probably believed that the costs of not definitively reining in the D-mark in the wake of German reunification were too high to tolerate. Whatever aspirations the French may have had about reining in the D-mark

while still retaining a measure of control over the franc through a common European currency, were probably abandoned in the face of post-Cold War realities. Under these conditions, restraining Germany became more important than preserving France's already limited independence in monetary affairs, which would likely further erode in the aftermath of German unification in any case.

62 These criteria were:

a) an inflation rate not more than 1.5% above the average of the three member states with the lowest rates;

b) long-term interest rates within 2% of the average of the three member states with the lowest rates;

c) a national budget deficit less than 3% of GDP;

d) a public debt ratio not exceeding 60% of GDP; and

e) a record of currency stability, defined as a period of two years within the narrow band (2.25%) of the EMS and without any devaluations. See "Protocol on the convergence criteria referred to in Article 109j of the Treaty establishing the European Community," in the English edition of the Official Journal of the European Communities, C 224, Volume 35, 31 August 1992.

63 See Title II, Article 109 of the Treaty on European Union (Maastricht Treaty) in the English edition of the Official Journal of the European Communities, C224, Volume 35, 31 August 1992. Before and after the signing of the Maastricht Treaty, French leaders spoke of ensuring an "economic government", centered around the Council of Ministers, that would set limits to the independence of the European central bank. See Metterrand's remarks at a press conference after the Maastricht summit, in Politique EtrangŠre de la France: Textes et Documents, December 1991, p./ 130; the remarks of Foreign Minister Roland Dumas in "Le SuccŠs de Maastricht," Revue Politique et Parlementaire, Nov-Dec 1991, p. 40; and especially the comments made by the minister for European Affiars, Elisabeth Guigou in an interview with Le Monde on June 23, 1991 from Politique EtrangŠre dse la France, June 1991, p. 123 and her response to a question in the National Assembly, Nov. 6, 1991 in from Politique EtrangŠre de la France, Novembre 1991, p. 13.

64 Title II, Article 109j of the Treaty on European Union.

65 Mitterrand's debate with Philippe S‚guin, the Gaullist National Assembly deputy who spearheaded the No campaign, on September 3, 1992 at the Sorbonne are recorded in La Politique EtrangŠre de la France. Textes et Documents, September 1992, pp. 11-23. "The final word on Maastricht is that it protects Europe against the possible dangers of its own development .... " p. 23.

66 See comments by Michel Sapin, the finance minister in Le Monde, September 2, 1992, p. 8. This argument was also made by Antoine Riboud, chairman of BSN: "If we say No, the DM will be the major reserve currency. There won't be a second chance." quoted in Financial Times, September 9, 1992, p. 1.

67 See comments by Roland Dumas in Le Figaro, September 3, 1992, reprinted in La Politique EtrangŠre de la France. Textes et Documents, September 1992, p. 36. Also see comments by Prime Minister, Pierre B‚r‚govoy in Le Monde, September 8, 1992, p. 11.

68 See Mitterrand's declaration to the (French) Council of Ministers and Dumas's interviews with RTL and TF1 in La Politique EtrangŠre de la France. Textes et Documents, June 1992, pp. 101103. For the French version of the joint declaration by Mitterrand and Kohl, see La' Politique EtrangŠre de la France. Textes et Documents, June 1992, p. 101.

69 Spain devalued by another 6% in November along with Portugal. Portugal, Spain, and Ireland all temporarily reimposed exchange controls to protect their currencies. These three countries and Denmark also raised short-term interest rates intermittently during November to ward off speculators. Finland, Sweden and Norway who had tied their currencies to the ECU to bolster their applications for membership in the EC were forced to float in September, November and December respectively.

70 Financial Times, June 23, 1993 page 16.

71 See Financial Times, July 14, 1993, p. 2; and July 1, 1993, p. 2.

72 The Deutschemark and Dutch guilder remained within their ñ2.25% bands.

73 Financial Times, March 21, 1995, p. 2.